



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B1/15C
B9/25C

27 February 2015

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Prudential Measures for Property Mortgage Loans

With the HKMA's introduction of the sixth round of countercyclical measures for property mortgage lending and the Government's introduction of tax measures for demand side management in February 2013, the prices for residential properties in Hong Kong remained stable in the following year, and the average monthly turnover was notably lower than that in 2012.

However, the property market became buoyant again in the second half of 2014, particularly for small- and medium-sized residential property market. Given the renewed signs of overheating in the property market, coupled with the increasing household indebtedness, the HKMA considers it necessary to introduce the following new countercyclical measures to strengthen the risk management of authorized institutions (AIs) in relation to their mortgage lending business and to enhance borrowers' ability to cope with the impact in the event of a property market downturn.

New countercyclical measures

- (1) The maximum loan-to-value (LTV) ratio for self-use residential properties with value below HK\$7 million will be lowered by a maximum of 10 percentage points. For example, the maximum LTV ratio applicable to properties with value HK\$6 million or below and subject to the LTV cap of 70% will be lowered to 60%.

- (2) The maximum debt-servicing ratio (DSR) for mortgage loans to borrowers who acquire their second residential property for self-use will be lowered to 40% from 50%, and the stressed-DSR cap will correspondingly be lowered to 50% from 60%.
- (3) The maximum DSR for mortgage loans of all types of non-self use properties, including residential properties, non-residential properties¹ and car park spaces, will be lowered to 40% from 50%, and the stressed-DSR cap will correspondingly be lowered to 50% from 60%.

The above measures take immediate effect. To avoid causing hardship to mortgage applicants who have signed provisional sale and purchase agreements on or before the date of this letter, AIs may assess the mortgage loan applications of these applicants based on their existing underwriting criteria.

Details of the new measures are set out in the **Annex** to this letter. The HKMA will monitor AIs' compliance with the supervisory measures through its routine on-site examinations and off-site reviews.

On-going risk management arrangement for risk-weighting under the Internal Ratings-Based (IRB) Approach

When the HKMA introduced the sixth round of countercyclical measures in February 2013, it also required AIs using the IRB Approach for managing credit risk to introduce a risk-weight floor of 15% for their residential mortgage portfolios. It was decided at the time that, to facilitate AIs in adapting to this requirement, the 15% risk-weight floor is only applicable to new residential mortgage loans (RMLs) granted after the date of introducing the measure. This measure has been introduced for two years. Having reviewed this measure recently, the HKMA decided to require AIs using the IRB Approach to extend, by end-June 2016, the risk-weight floor of 15% to RMLs approved before February 2013 and, by end-June 2015, a risk-weight floor of 10% to those RMLs. The HKMA may require individual AIs to implement this measure at an earlier date if deemed necessary.

If your institution has any questions about the content of this letter, please contact Mr Eric Kan at 2878-1096 or Ms Rachel Wan at 2878-8297.

¹ For commercial and industrial property mortgage financing, self-use properties are generally assessed and approved in the form of commercial loans, instead of property mortgage loans. In other words, mortgage financing in the form of property mortgage loans is only applicable to non-self use commercial and industrial properties.

Yours faithfully,

Arthur Yuen
Deputy Chief Executive

Encl.

**Prudential Measures on Loan-to-Value Ratio and Debt-Servicing Ratio
for Property Mortgage Loans
with effect from 27 February 2015**

Table 1A: Maximum loan-to-value (LTV) ratio (applicable to applicants who have not borrowed or guaranteed other outstanding property mortgage loans) ¹

Property value	Residential properties				Commercial and industrial properties, standalone car park spaces	
	Self-use		Non-self-use or company held			
	Applicants' income mainly derived in Hong Kong (HK)	Applicants' income mainly derived from outside HK ²	Applicants' income mainly derived in HK	Applicants' income mainly derived from outside HK ²	Applicants' income mainly derived in HK	Applicants' income mainly derived from outside HK ²

(A) Debt-servicing ratio (DSR)-based lending

< HK\$7 million	70% → 60% (subject to a loan cap of HK\$4.2 million)	60% → 50% (subject to a loan cap of HK\$3.5 million)	50%	40%	40%	30%
≥ HK\$7 million but < HK\$10 million	60% (subject to a loan cap of HK\$5 million)	50% (subject to a loan cap of HK\$4 million)				
≥ HK\$10 million	50%	40%				

(B) Net-worth-based lending

Regardless of property value	40%	30%
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¹ The new supervisory measures introduced on 27 February 2015 are marked in red.

² Applicants will not be subject to the LTV ratio limit reduction if they can demonstrate having a close connection with Hong Kong, e.g. they are seconded by local employers to work outside Hong Kong with documentary proof provided by the employers; or their immediate family members (i.e. parents, spouse, and descendants) are residing in Hong Kong.

**Prudential Measures on Loan-to-Value Ratio and Debt-Servicing Ratio
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Table 1B: Maximum LTV ratio (applicable to applicants who have borrowed or guaranteed other outstanding property mortgage loans) ¹

Property value	Residential properties				Commercial and industrial properties, standalone car park spaces	
	Self-use		Non-self-use or company held			
	Applicants' income mainly derived in HK	Applicants' income mainly derived from outside HK ²	Applicants' income mainly derived in HK	Applicants' income mainly derived from outside HK ²	Applicants' income mainly derived in HK	Applicants' income mainly derived from outside HK ²

(A) DSR based lending

< HK\$7 million	70% → 60% (subject to a loan cap of HK\$4.2 million)	50% → 40% (subject to a loan cap of HK\$2.8 million)	50%	30%	40%	20%
≥ HK\$7 million but < HK\$10 million	60% (subject to a loan cap of HK\$5 million)	40% (subject to a loan cap of HK\$3 million)				
≥ HK\$10 million	50%	30%				

(B) Net-worth-based lending

Regardless of property value	30%	20%
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¹ The new supervisory measures introduced on 27 February 2015 are marked in red.

² Applicants will not be subject to the LTV ratio limit reduction if they can demonstrate having a close connection with Hong Kong, e.g. they are seconded by local employers to work outside Hong Kong with documentary proof provided by the employers; or their immediate family members (i.e. parents, spouse, and descendants) are residing in Hong Kong.

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Table 2: Maximum debt-servicing ratio (DSR)¹

	Self-use residential properties and car park spaces^{2 3}	Non-self-use residential properties, commercial and industrial properties and car park spaces
Applicants who have <u>not</u> borrowed or guaranteed other outstanding property mortgage loans, or applicants who replace an existing property⁴ or apply refinancing		
Base-DSR cap	50%	50% → 40%
Stressed-DSR cap	60% assuming an interest rate hike of 300 bps	60% → 50% assuming an interest rate hike of 300 bps
Applicants who have borrowed or guaranteed other outstanding property mortgage loans⁵		
Base-DSR cap	40%	
Stressed-DSR cap	50% assuming an interest rate hike of 300 bps	

1 The new supervisory measures introduced on 27 February 2015 are marked in red.

2 “Self-use” refers to occupancy by the owners or their immediate family members (i.e. parents, spouse, children and siblings), or by an individual majority shareholder or his/her immediate family members if the property is held through a shell company.

3 When considering applications by operating companies for self-use property mortgage loans or credit facilities secured by properties to support the genuine business or funding needs of their normal business operations, authorized institutions adopt a set of more comprehensive credit underwriting standards and assessment, and conduct closer credit monitoring and more frequent credit reviews that are applicable to corporate borrowers. Therefore, the relevant countercyclical measures do not apply to self-use commercial and industrial property mortgage loans for operating companies.

4 This includes applicants making a new mortgage application to acquire a property before disposing an existing one. In such cases, the applicants have to repay the outstanding mortgage loans of the existing property within six months upon the drawdown of the mortgage loan for the new property.

5 This includes applicants acquiring a second property for self-use.